

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2013-201-WS**

IN RE:

Application of Utilities Services of South,  
Carolina, Inc. for adjustment of rates and  
charges and modifications to certain terms  
and conditions for the provision of  
water and sewer service.

**REBUTTAL TESTIMONY**  
**OF**  
**STEVEN LUBERTOZZI**

1  
2 **Q. WOULD YOU PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**  
3 **ADDRESS FOR THE RECORD?**

4 A. My name is Steven M. Lubertozzi. I am employed as the Chief Regulatory  
5 Officer at Utilities, Inc., ("UI") through its shared services organization, 2335 Sanders  
6 Road, Northbrook, Illinois 60062.

7 **Q. ARE YOU THE SAME STEVEN LUBERTOZZI THAT FILED DIRECT**  
8 **TESTIMONY IN THIS DOCKET?**

9 A. Yes, I am.

10 **Q. PLEASE SUMMARIZE THE ISSUES YOU WILL BE ADDRESSING?**

11 A. The cost of debt used by ORS witness Gearheart, the overall revenue requirement  
12 if the Commission were to accept all of ORS' adjustments and the historical financial  
13 performance of Utilities Services of South Carolina, Inc. (hereinafter "USSC").

14 **Q. WHAT ISSUES DO YOU HAVE WITH THE COST OF DEBT USED BY ORS**  
15 **WITNESS IVANA GEARHEART?**

1 A. Ms. Gearheart uses a cost of debt rate of 6.58%, which is .02% below UI's actual  
2 cost of debt. Ms. Gearheart provided no evidence or support in her Direct Testimony and  
3 Exhibits that would indicated that the full cost of debt of 6.6% is inappropriate or  
4 imprudent. On July 19, 2006 UI entered into a Master Note Purchase Agreement,  
5 wherein \$180,000,000 of collateral trust notes were issued at 6.58%. The additional  
6 .02% represents costs to acquire the debt.

7 **Q. WHAT TYPES OF COSTS WERE INCURRED TO ACQUIRE THE DEBT?**

8 A. In order to acquire the \$180,000,000 of debt at 6.58%, a rate that was in line with  
9 market rates when it was acquired in 2006, UI had to engage lawyers, consultants, tax  
10 advisors and incurred fees and costs. These costs incurred by UI are similar, but not  
11 exactly the same, as costs a homeowner would include to refinance a home mortgage. It  
12 would be completely imprudent for any company to acquire any debt without the  
13 assistance of lawyers, tax advisors and consultants.

14 **Q. ARE THESE COSTS SOMETIMES REFERRED TO AS FLOTATION COSTS?**

15 A. Often, the costs incurred by publicly traded companies to issue securities are  
16 referred to as flotation costs. The costs at issue in this case, however, were incurred in  
17 connection with a debt issuance and the term flotation cost does not fully reflect what  
18 these costs really are and why they were incurred. I prefer to refer to these as costs  
19 incurred to acquire UI's long-term debt.

20 **Q. HOW MUCH DID UI INCUR TO ACQUIRE THE \$180,000,000 LONG-TERM**  
21 **DEBT?**

1 A. UI incurred approximately \$1.3 million, which is less than 1% of the  
2 \$180,000,000 offering. These costs are amortized over the term of the loan agreement,  
3 which is 30 years, so UI expenses approximately \$42,000.00 per year.

4 **Q. HOW DID YOU ARRIVE AT 6.6% IF THE STATED INTEREST RATE IS**  
5 **6.58%?**

6 A. UI makes semiannual interest payments in January and July of each year and each  
7 payment is \$5,922,000, calculated below:

8  
9 
$$\$180,000,000 * 6.58\% * \frac{1}{2} = \$5,922,000$$

10  
11 Therefore, UI pays annual interest expense of \$11.844 million.

12 UI incurred approximately \$1.3 million in fees and costs to acquire the  
13 \$180,000,000. These fees are amortized over the life of the loan, which is 30 years or  
14 \$42,000 of amortization expense per year.

15 USSC added the \$42,000 of amortization expense to the annual interest expense  
16 of \$11.844 million which totals \$11.886 million of annual prudently incurred expense.  
17 The calculation to obtain the 6.60% is provided below:

18  
19 Annual expense: 
$$\$180,000,000 * 6.58\% + \$42,000 = \$11,886,000$$

20 Annual cost rate: 
$$\$11,886,000 / \$180,000,000 = 6.60\%$$

21  
22 **Q. HAVE ALL OF USSC'S SISTER COMPANIES OUTSIDE OF SOUTH**  
23 **CAROLINA RECOVERED THESE COSTS?**

1 A. Yes, when filing rate cases for other UI operating companies, we routinely  
2 include the costs to acquire the \$180,000,000 and they have been routinely accepted by  
3 the parties and included in rates by the Commissions in other jurisdictions (e.g., North  
4 Carolina, Illinois, and Nevada).

5 **Q. IN YOUR OPINION WHAT IMPACT WOULD THE EXCLUSION OF THESE**  
6 **COSTS HAVE?**

7 A. There will be several impacts. The first one would be that USSC would never  
8 earn its authorized return, because the full cost of its debt will not be factored into rates.  
9 Second, unrecovered costs could cause future interest rates available to UI (and other  
10 utilities) to increase, because lending institutions will know that costs to acquire debt will  
11 be at risk of not be recovered by customers.

12 **Q. IN YOUR OPINION SHOULD THE COSTS INCURRED TO ACQUIRE THE**  
13 **\$180 MILLION OF LONG-TERM DEBT BE INCLUDED FOR RATEMAKING**  
14 **PURPOSES?**

15 A. Absolutely, UI incurred these cost and there is no evidence to suggest that these  
16 costs were imprudently incurred.

17 **Q. IF THE COMMISSION WERE TO ACCEPT ALL OF ORS' ADJUSTMENTS**  
18 **AND USE THE MIDPOINT OF ITS ROE RANGE WHAT WOULD BE THE**  
19 **RESULTING REVENUE REQUIREMENT?**

20 A. The resulting revenue requirement using all of ORS' adjustments is \$986,000.  
21 However, for the reasons discussed in UI's rebuttal testimony, the Commission should  
22 not accept the ORS's proposed adjustments.

23 **Q. PLEASE DISCUSS USSC'S OVERALL FINANCIAL PERFORMANCE AND**

1       **HEALTH.**

2       A.           As shown in PMA-2, Schedule 1R, Page 2 of 2 USSC financial performance for  
3       the past 10 years has been abysmal. The exhibit is provided in its entirety below:

Exhibit PMA-2  
Schedule 1R  
Page 2 of 2

Utilities Services Of South Carolina, Inc.  
Revenues and Net Income for the years 2003 - 2012

<u>Year</u>	<u>Revenue</u>	<u>Net Income (Loss)</u>
2003	\$ 2,283,798	\$ 77,204
2004	\$ 2,333,013	\$ (17,815)
2005	\$ 2,286,913	\$ (430,003)
2006	\$ 2,878,460	\$ (245,379)
2007	\$ 2,904,417	\$ (184,474)
2008	\$ 3,526,910	\$ 578,559
2009	\$ 3,405,071	\$ 101,273
2010	\$ 3,309,064	\$ 47,139
2011	\$ 3,340,345	\$ (463,172)
2012	\$ 3,247,495	\$ (172,867)

4       Source of Information: Company provided

5  
6       USSC has lost money every year except 2010, 2009, 2008 and 2003. While losing  
7       money is most years, USSC continued to deploy capital. USSC's plant balance increased  
8       by more than \$9,000,000 since acquisition. If USSC was a standalone entity it would: (1)  
9       not be able to meet its obligations as they come due, (2) not be able to attract debt  
10      without paying an excessively high interest and (3) would not be able to attract equity.

11    Q.       **HOW CAN THE COMMISSION SET USSC'S RATE OF RETURN IN ORDER**

1       **THAT IT IS ALLOWED TO BE A FINANCIALLY STRONG UTILITY**  
2       **OPERATING IN SOUTH CAROLINA?**

3       A.           The Commission should set USSC's ROE at the top of the witness D'Ascendis'  
4       range not the bottom of Dr. Carlisle's range as the ORS recommends. USSC had  
5       multiple rate increases in the past. However, due to continue upward pressure on  
6       expenses and continued capital deployment, USSC has negative free cash flow. As  
7       shown by actual operating results, the regulatory process is inadequate by design.

8       **Q.   PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU SAY THAT THE**  
9       **REGULATORY PROCESS IS INADEQUATE BY DESIGN.**

10      A.           The parties in most rate cases in South Carolina spend excessive amounts of rate  
11      case expense to litigate issues related to the cost of capital, particularly cost of equity. In  
12      this case, we are arguing over whether USSC should be authorized an 8.86% ROE, which  
13      would be the lowest ROE in recent history, or 10.70%, which is near the top of Mr.  
14      D'Ascendis' range. However, at the end of the day, those arguments are moot if the  
15      company has zero chance of actually earning its authorized ROE. The Commission,  
16      USSC, ORS, and customers would all be better off if rates were set at a level that allows  
17      a company to have positive earnings. However, this can only happen through the  
18      implementation of best practices, which acknowledges the fact that a regulated water  
19      utility cannot earn its authorized return, which is further complicated in South Carolina if  
20      a regulated water/wastewater company cannot include its true cost of debt or actual rate  
21      case expense. Without these USSC will be forced to file rate cases on a more frequent  
22      basis, which only cause rates to increase. Furthermore, UI can't continue to subsidize  
23      USSC without a predictable regulatory compact.

1 Q. PLEASE EXPLAIN THE PROCESS THAT USSC DEVELOPED TO TRACK  
2 UNACCOUNTED FOR WATER TO TRACK THE 10% TRESHOLD.

3 A. When the 10% threshold became effective in 2013 USSC created a Standard  
4 Operating Procedures ("SOP") to track unaccounted for water for subdivisions that  
5 purchase water. USSC's plan was to track purchased water over a six-month period and  
6 provide refunds in the following quarter. The SOP is attached at Exhibit SML – 1.

7 Q. WHAT WERE THE RESULTS OF THE FIRST SIX MONTHS?

8 A. The results of our analysis indicated that for the first six months that the following  
9 subdivisions needed adjustment to their bills. USSC is in the process of verifying this  
10 information and plans to implement the adjustment to current customers during their next  
11 regular scheduled billing.

Sub #	Subdivision	Gallons
040	Calhoun Acres	466,075
167	Hidden Lake	257,541
429	Towncreek Acres	19,935
102 & 342	Dutch Village and Raintree	1,336,714
456	Vanardsdale	76,970
012	Barney Rhett	359,483

12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14 A. Yes it does.

## USSC Purchased Services Tracking SOP

### Synopsis

The tracking process has been set up to determine if we are over billing our customer's for purchased services.

Per the commission order: "The Utility shall limit the amount of non-account water charges to customers not to exceed 10% of total water purchased from the governmental body or agency, or other entity. Water loss due to leaks and routine flushing must be accounted for and thoroughly documented by detailing location, timeframe and reason for leak or flushing."

The tracking file will be analyzed semi-annually and any subs for which we have overbilled per the above criteria will have the consumption amount from next vendor invoice reduced by the overbilled consumption.

Total allocated \$ amount to customers will be reduced accordingly.

Please note: This process is effective Feb 12, 2013

### Find Most Recent Files Here

The most recent tracking file will be found as follows:

[\\dc0na001\files.uiwater.com\Rate Case\South Carolina\071-Util Serv of SC\USSC Purchased Water\USSC Purchased Services Tracking](#)

Billing Department Files:

[\\dc0na001\files.uiwater.com\Rate Case\South Carolina\071-Util Serv of SC\USSC Purchased Water\USSC Purchased Services Tracking\Billing Dept Files](#)

Operations File:

[\\dc0na001\files.uiwater.com\Operations Reporting\Monthly Water Acct Forms\Monthly Water Acct Form - SE - SC.xlsm](#)

### USSC Purchased Services Tracking File

The purpose of this file is to summarize and track the USSC purchased services in an organized manner

The 'Summary' tab will highlight which subs (if any) should receive a credit due to overbilling

Updating the file:

Create a new tab for the Billing Dept file under Purchased Water Billings Section

Tabs should be labeled sequentially

Hard code the Operations file for each sub under their respective tab within the Water Acct Forms section

Go back to the Tables by Sub section

Insert 3 rows per month of update, each one below the most recent detail in the Vendor (red), CC&B (blue), Water Loss (orange) tables

Unhide column A.

For both the Vendor table and the CC&B table, type the new tab name for the new Purchased Water Billings File. 'xxxxx'

Drag cells down from the most recent detail outside of the tables in order to populate the new row, hide row A

Summary tab will populate with new data, review any red cells which indicate we need to issue a credit

Discussion of Threshold Calculation:

All vendor invoices (allocated amounts) and CC&B invoices (consumptions amounts) will have gallonage allocated to calendar month (done on individual sub tabs)

Operations detail (accounted for use/loss) is already organized by calendar month.

The Threshold is = to 10% of the vendor invoice + CC&B consumption + accounted for use/loss

If the invoiced/allocated amount is > Threshold amount, a credit of the difference is suggested

Issuing a credit:

If a cell indicated we need to issue a credit and we have completed the billing cycle please review all inputs for accuracy.

If all inputs hold to be True, we will reduce the next vendor invoice by the necessary amount

The necessary refund amount will be the consumption difference between Invoiced/Allocated and Threshold (highlighted in red) \* the effective rate per vendor invoice

In instances where we have overbilled and a new rate has been effective (and approved) within the 6-month period, we will refund the consumption at the new rate

In instances where we have overbilled and a new rate has either not been approved or was not effective within the 6-month period, we will refund the consumption at the old rate

### Purchased Water Billings File

The purpose of these files is to track the pass-through consumption and compute a bill factor amount, which is used to calculate customer bills

These files will be updated by billing once regulatory dept has determined which vendor rates can be passed to customers

Columns should be organized as follows:

B: Invoice Adjusted/Allocated \$ amount

C: CC&B consumption

L: Sub number

O: Vendor Invoice Date

Q: Vendor ID

T: JDE Doc number for vendor invoice

U: Invoiced Usage

V: Invoice Start date (service period)

W: Invoice End date (service period)

Cells:

M2: CC&B Bill Date

L4: CC&B Start Date (service period)

M4: CC&B End Date (service period)

### Monthly Water Acct Form

The purpose of this file is to track the approved water usage and accounted for loss, by month, by sub

This process considers approved water usage and accounted for loss as passable uses

Rows should be organized as follows:

86: Total Authorized Water Usage

99: Total Identified Water Losses



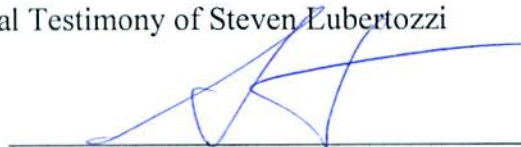
## CERTIFICATE OF SERVICE

The undersigned, Scott Elliott, of Elliott & Elliott, P.A., does hereby certify that he has this date served the below-listed parties with a copy of the pleading(s) indicated below by electronically mailing a copy of same to each of the parties per the Stipulation of Electronic Service entered into by the parties on September 5, 2013:

Re: *Application of Utility Services of South Carolina, Inc. for Adjustment of Rates and Charges and Modification of Certain Terms and Conditions for the Provision of Water and Sewer Service*  
Docket No. 2013-201-WS

PARTIES SERVED: Jeffrey M. Nelson, Esquire  
Florence P. Belser, Esquire  
Office of Regulatory Staff  
1401 Main Street, Suite 900  
Columbia, SC 29201

PLEADING: Rebuttal Testimony of Steven Lubertozi



---

Scott Elliott, Esquire  
Elliott & Elliott, P. A.  
1508 Lady Street  
Columbia, SC 29201

October 16, 2013